



Press Release

Announcement Press Meet for 5th Eastern India Microfinance summit 2019

Microfinance – Contributions to Financial Inclusion; Opportunity and Challenges Ahead

Kolkata, 10th December, 2019

About the Summit:

Given the recent disruptions in the environment and regulatory actions, it is necessary that the micro-lenders, the bankers, the policy-makers, allied financial service providers and researchers join hands on common platform. To this end, the Association of Micro Finance Institutions – West Bengal, along with its member MFIs and Banks and knowledge partner KPMG – is hosting the 5th Eastern India Microfinance Summit 2019 titled, “Microfinance – Contributions to Financial Inclusion; Opportunity and Challenges Ahead”. This is being held on 18th December 2019 at The Lalit Hotel, Kolkata. The purpose of the summit is to actively engage key stakeholders in discussions relevant to current and future aspects of financial inclusion.

Discussions in the 5th Eastern India Microfinance summit will focus on the following themes:

Role of data and technology in driving growth – Opportunities and Challenges:

- Across financial services sector, we are seeing increased adoption of digital technologies and the use of data to improve efficiencies and provide better customer service and the microfinance players are no exception. The success of the model, MFI industry or institution per se has always been around customer centricity.
- While most MFIs have adopted cashless disbursements, they are continuously exploring opportunities to leverage technology through every stage of the lending value chain. A few players have started experimenting with digital methods for customer onboarding such as a mobile application to avail instant loans while others have initiated digital collection processes and have gained traction with as much as one-third of their collections conducted through cashless mode.
- While implementation of core banking systems and loan management systems are underway at many MFIs, there is a need to digitize across the value chain focusing on customer on boarding, underwriting, collections and governance mechanisms. Digital is emerging as a key enabler in microfinance and may see adoption by other players in the near future.
- Traditionally a high-touch model, microfinance players may be faced with the task of educating the consumers about digital methods when embarking on the digital journey. The focus of technology strategy continues to be increasing operating efficiency, cost reduction, arranging wide cross-sell, and data analytics with clear goals. Technology will play a pivotal role in delivering a profitable and scalable model as increase in competition and rise in borrowing costs will add pressure to the margins going forward.

Microfinance – Balancing the social and commercial roles in the current landscape:

- True to its nature of doing well by doing good, players in the microfinance industry have always strived to make a difference in the lives of their customers and yet run a sustainable business. Faced with challenges of reducing interest rates in the market, microfinance industry has seen introduction of various process improvement measures.

- Use of technology coupled with customer education has led to lower delinquency and higher profitability, while also educating the customer about responsible use of funds. Some players have started diversifying into other avenues like micro-insurance by leveraging the captive customer base.
- As the competition intensifies, there has been a trend in the sector towards winning over the customers by participating in their social upliftment. Some microfinance institutions have started lending for non-income generating activities like construction of toilets, solar lighting and education purposes. With the bottom of the pyramid abound with multiple social challenges, microfinance industry is poised to capture this market and make a positive impact in the socio-economic status of the poor.

Role of SROs and Regulators in the current landscape:

- The microfinance sector has been buzzing with a lot of activity over the last few years. Besides NBFC MFIs, the industry has attracted interest from a number of players like banks, small finance banks, fin-tech players and NBFCs, leading to improved access for the customer. SFBs, Banks and other NBFCs entering the borrower profile currently targeted through MFIs and who are no longer New to credit customers is likely to change the market dynamics related to pricing, product offerings, level of exposures, borrower indebtedness and credit quality. This period of dynamic change might be an opportune time for the regulators to re-evaluate certain rules such as the lending cap on NBFC MFIs.
- SROs have also played an active role in the evolution of microfinance sector by encouraging players to adopt a common code in order to prevent over-indebtedness and adopt fair practices. The microfinance sector has weathered many a crisis, thanks to timely intervention by the regulators who have instilled prudence and provided an enabling regulatory environment. In the current scenario, the industry looks up to the regulators and SROs for an evolved regulatory guidance – one that offers a level-playing field across the types of microfinance lenders, encompassing lending caps and household indebtedness – a measure that can ensure all risks are managed pro-actively.

Beyond Lending:

- In microfinance is to explore avenues beyond credit and achieve financial inclusion in a holistic manner. As indicated by several studies, the impact on the poor is higher if other services are made available beyond micro-credit. Micro-insurance is emerging as a promising new avenue and as of 2018, 20 MFIs have provided health insurance products to over 9 lakh customers while over 51 lakh customers have been provided with non-health products by 33 MFIs. As the competitive intensity for MFIs increase, the pressure on margins will increase considerably. So, the need for the MFIs to focus on non-interest income/ credit plus products becomes very important. MFIs can enhance the penetration of insurance in General and Life insurance sector with simple, contextual and small ticket size products, based on the needs of the segment.
- Several other activities can be considered under the credit-plus umbrella. The MFIs can help improve social impact through distribution of products such as solar lamps, LED bulbs and lights, sanitation products, purifiers, etc. There is empirical evidence that water and sanitation loans have 0% NPA since this is viewed by the borrower as an uplifting gesture and is treated with gratitude. With non-income-generating loans forming 7% of overall loans, there is still some room to grow this segment. Financial literacy programs, development programs for micro-entrepreneurs and preventative health awareness programs are some of the other avenues that could be explored. Such programs build brand loyalty, help in customer acquisition in the long run and are a win-win for all stakeholders in the inclusive finance ecosystem.

Some of the key discussion points to understand the microfinance industry nationally as well in Eastern India Perspective:

• In the current scenario, public sector banks (PSBs) are grappling with multiple challenges such as piling of bad loans, increasing incidents of frauds, 11 banks being restrained from giving fresh loans (they are under prompt corrective action or PCA), etc. Over the past couple of years, it is evident that PSBs' ability to support NBFCs as well as NBFC-MFIs has declined considerably. • The major role of MFIs is to catalyse the rural economy through requisite financing. In the absence of bank funding, NBFC-MFIs have struggled to raise funds at competitive rates in the aftermath of IL&FS crisis. A regulatory framework for banks (particularly PSBs) to support NBFCs and MFIs may be put in place to ensure that there is consistent fund flow. • Several microfinance bodies including AMFI-WB feel the prevailing regulations for the microfinance industry, have been in force since 2012 following the recommendations of the YH Malegaon Committee, and should be revisited. Over the past five years, there have been several significant changes impacting the microfinance industry with different types of players, technology and financial disruptions, different risk elements. However, the regulations have remained the same. • AMFI-WB also feels that priority should be given to domestic equity. The foreign equity cap in NBFCMFIs needs to be made mandated. While mature MFI institutions have their roots in NGOs and development organizations, many new MFIs, run by former bankers and backed by private equity players, have shifted their focus to business growth instead of development. • Indian Microfinance Fund was created in 2012 by then finance minister Mr. Pranab Mukherjee with a corpus of Rs100 crore. The amount remains same even after seven years in spite of huge growth in the industry in last couple of years. • *In West Bengal, this industry (among the AMFI-WB Members i.e. MFIs and Banks) directly employs at least 39,000 people and most of them are from low income families with limited educational qualifications with total investment of 27000 Crores as loan outstanding as of September 2019. The MFI segment created huge micro and small entrepreneurship in the state, covering more than 8.5 million women who are mostly from the underprivileged segment. The government needs to be more proactive in terms providing safeguards to this industry in matter of issuance of trade license, shop and establishment registration and other compliance processes. We may seek a single window option for trade licenses and shop and establishment for a one time fixed fee per branch.*

For further details:

Kindly contact@ **TAG COMMUNIS**

Debarjun Kar@ 9874559911

Megha Sarkar@ 7278439581

Baidik Chakraborty@ 8017787183